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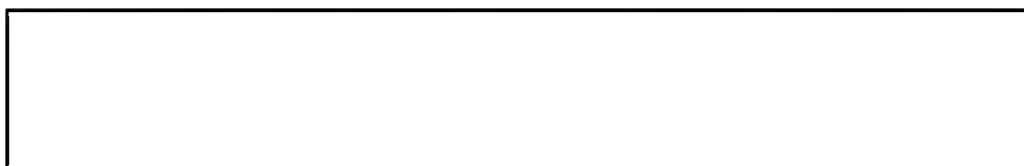
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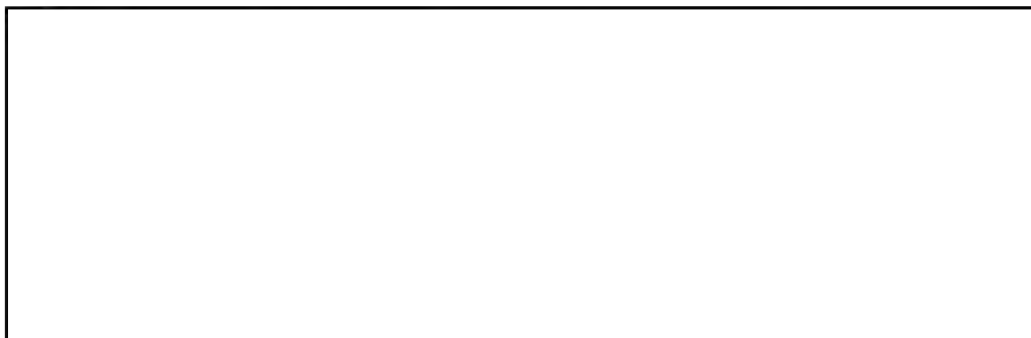
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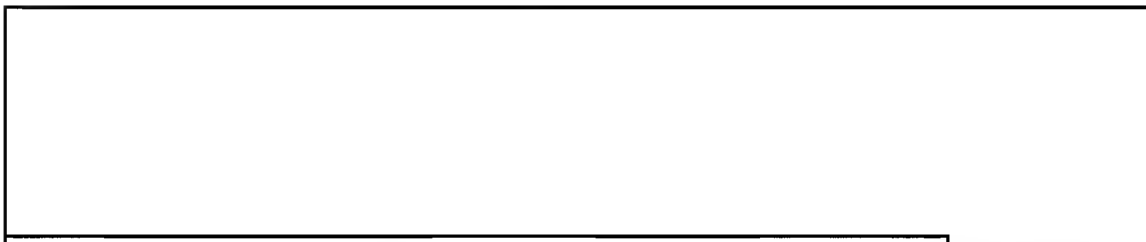
PORTUGAL

Prime Minister Goncalves is still in the center of the power struggle between the moderates and the Communists.

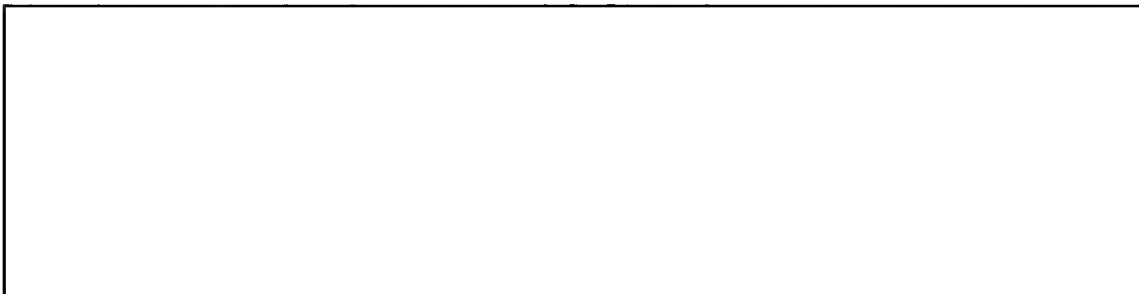
Both the Communists and the Socialists are claiming the events of last weekend as a victory. The Communists issued a statement congratulating party members for having turned back "reactionary forces" bent on forcing Goncalves' resignation and establishing a right-wing government. The Communist-dominated propaganda division of the general staff has published its second communique in as many days supporting the Prime Minister and rebuking the Socialists—without naming them—for their efforts to "encourage violence."

The Socialists, on the other hand, are euphoric because they held successful rallies despite attempts by the Communists and the military to stop them. Socialist leader Soares reportedly believes the crowds at the Lisbon rally would have been much larger if there had not been roadblocks and other forms of harassment.

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the moderates on the Council are concerned that continuing attacks on Communists in northern Portugal and continuing Socialist activities that pose a threat to public order might serve to unite the military against the moderates. This could destroy any chance to force Goncalves out. Foreign Minister Antunes has reportedly passed the word to the Socialists to avoid violence or activities such as strikes.



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The travel plans of key Revolutionary Council members have also prompted speculation about the timing of an attempt against Goncalves. Internal security forces commander Otelo de Carvalho left yesterday for a scheduled trip to Cuba. His departure has fueled rumors that he may have left to avoid any connection with the attempt against Goncalves, while making sure that security troops will support the moderates' cause. Council moderate Alves has reportedly already been to the internal security command headquarters seeking support.

Foreign Minister Antunes told his Italian counterpart in discussions last week in Rome that he had tentatively decided not to attend the ministerial meeting—scheduled for today in Brussels—to discuss EC aid for Portugal. His reasons for remaining in Lisbon may be tied to the power struggle within the Revolutionary Council. He may also be waiting for a new government to be formed before discussing assistance with the EC.

Press reports that President Costa Gomes summoned both Soares and the leader of the Socialist faction in the constituent assembly for consultations may indicate some break in the situation.

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ARGENTINA

Labor leaders in Argentina yesterday confronted the embattled President Peron with tough economic and political demands.

The demands, presented in a document entitled the "alternative plan," call for new price controls and periodic wage adjustments to compensate for the runaway inflation, and the nationalization of foreign trade and the banking system to halt the flight of currency abroad. The labor position reportedly had been coordinated with the military and the Peronist political wing.

The labor leaders also asked for a sweeping reorganization of the Peronist movement to get rid of the remnants of the followers of former presidential adviser Lopez Rega. Yesterday the resignations of two more cabinet ministers, both close to Lopez Rega, were accepted. The officials removed were the minister of social welfare and the presidential press secretary. The resignations followed the dismissal of Economy Minister Rodrigo over the weekend.

The meeting with labor leaders had to be cut short because, according to a labor participant, of Mrs. Peron's "fatigue and nervousness." The labor document was left with the President, who would study it and answer later, according to another labor official.

Despite the crisis atmosphere, it is unlikely that all of labor's proposals will be immediately and completely accepted. Negotiations will probably extend over several days. The full extent of any changes is not yet clear, but both labor and political sources have told the US embassy that "Mrs. Peron will be forced to join Lopez Rega in exile" if she refuses to meet their demands.

In any event, most observers concede that the armed forces will probably participate more directly in a restructured government and that Mrs. Peron, if she remains, will be relegated to a figurehead position.

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IRAN

Iran has agreed, at the request of UN Secretary General Waldheim, to provide a unit to take the place of the departing Peruvian contingent in the UN Disengagement Observer Force on the Golan front.

Tehran's acceptance is indicative of the Shah's intention to play a more influential role in the Middle East. It also reflects his desire to strengthen moderate forces and promote a reduction of tensions in the region. Tehran is now waiting for formal approval by the Security Council and Israel.

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For many years the Shah tended to regard the Arab-Israeli conflict as serving Iranian interests. It occupied the Arabs and gave Iran a freer hand to pursue its interests in the Persian Gulf. More recently, however, he has come to regard a settlement as desirable. His change of attitude has been influenced by the development of radical Palestinian organizations, the strengthening of Arab unity, and increased Soviet penetration of the region—all, in the eyes of the Shah, detrimental to long-range Iranian goals.

The Shah probably also calculates that the increasing involvement of Saudi Arabia and other Gulf states in the Arab-Israeli dispute is likely to add to pressures on Iran to reduce or cut its ties to Israel if a new war occurs.

Events since the 1973 Arab-Israeli war have diminished Iran's traditional aloofness toward the Arabs and weakened its unpublicized cooperation with Israel. Nevertheless, important links between Iran and Israel remain, and the Shah would like to preserve them against the day when Iranian ambitions clash more directly with Arab nationalism.

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USSR-EGYPT

Egyptian Finance Minister Ahmad Abu Ismail will leave for Moscow today to discuss Egypt's debt problems with the USSR.

Since last year, President Sadat has been urging Moscow to postpone payments due in 1975 on Cairo's military debt of at least \$1.5 billion. The Soviets have resisted, in part because the debt constitutes one of their remaining ways to put political pressure on Sadat, but this spring they did invite the Egyptians to send a delegation to Moscow for further discussions. Cairo apparently was not ready to accept unless the Soviets gave assurances that they would be conciliatory.

The Egyptians say that last week the Soviets renewed their invitation. If so, it seems likely that the Soviets gave signs of new flexibility on the debt question. The Soviets may have decided to act now, before Egyptian negotiations on Western financial assistance are completed, and thus put Sadat in a better position to thumb his nose at Moscow.

They may also hope to head off further restrictions on Soviet port rights, the ouster of the remaining Soviet advisers, or even abrogation of the Soviet-Egyptian treaty. The Soviets are concerned on this score; bloc attaches in Cairo, for example, have been taking soundings on whether Sadat, in his speech tonight marking the anniversary of the Egyptian revolution, might announce expulsion of the remaining Soviet military personnel in Egypt. Moscow might also consider that a positive move would blunt Egyptian charges of inadequate Soviet support, particularly since the visit will be made during a period of increased Arab-Israeli tension.

There is a remote possibility that the Egyptians sought the new invitation from Moscow. Any help on the economic front would be useful for Egypt, and Sadat will welcome the opportunity to demonstrate that he still has the option of improving relations with Moscow.

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SOMALIA

In a stiff note to the US embassy yesterday, the Somali Foreign Ministry warned that continued US allegations of a Soviet base in Berbera could have "very serious consequences" for Somali-US relations.

The note states that the US has violated Somali sovereignty by using a "spy apparatus" to take air photos of Berbera and other Somali territory, distributing these photos to other countries for the sole purpose of damaging Somalia's reputation, and using US diplomatic personnel in Mogadiscio to indulge in "flagrant intelligence and spy activities."

The allegation of intelligence gathering by the US embassy in Mogadiscio may indicate that the Somalis intend to impose new limits on the activities of US official personnel—they are already restricted to the city limits of the capital. President Siad also may move to reduce the size of the small US mission.

Although President Siad and other Somali officials privately admitted the existence of Soviet facilities in Berbera during Senator Bartlett's fact-finding trip early this month, the Somalis continue to deny publicly that there is a Soviet military facility in the Somali port.

In an earlier protest note to the US in June, the Somalis proclaimed their deep commitment to a policy of nonalignment and insisted that a cardinal principle of their foreign policy was opposition to the establishment of any foreign military bases in the Indian Ocean region. [REDACTED]

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CYPRUS

Greek and Turkish Cypriot leaders have indicated readiness to hold a third round of intercommunal talks in Vienna on Thursday, but the prospects for progress are dim. What slim chances there are will hinge on the nature of the Turkish proposals for a Cypriot central government that were presented yesterday to the UN special envoy to Cyprus and the Greek Cypriot reaction to them.

Greek Cypriot negotiator Clerides has already rejected Turkish Cypriot negotiator Denktash's proposals for a joint provisional government that were made public last Saturday. Clerides, with the backing of both Athens and Archbishop Makarios, claimed that the proposals were aimed at abolishing the government of Cyprus and that they prejudged a final settlement by their allusion to a biregional federation and equal representation of the two communities in the provisional government.

Denktash claimed that his proposals, which called for control by the provisional central government of foreign affairs, finance, communications, and health, could build mutual confidence and trust between the two communities.

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Another setback to negotiations is likely to occur if Denktash follows through on a threat he made on Sunday to resume the mass expulsion of Greek Cypriots from the north, should Turkish Cypriots in the south not be allowed to leave the Greek zone.

According to the US embassy in Nicosia, Makarios is not likely to yield to Denktash's demand. The expulsion of Greek Cypriots strengthens Makarios' argument that the Cyprus problem should be transferred to an international forum if there is no progress—which he does not expect—in the intercommunal talks at Vienna.

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MBFR

The force reduction talks in Vienna have adjourned until September, with the 22-month deadlock not broken. Western representatives hope that once the European security conference is out of the way, some progress can be made in the next round by the introduction of Option III—the West's nuclear proposal.

The nuclear proposal calls for the reduction in Western Europe of some US nuclear warheads and delivery systems in return for a withdrawal of a Soviet tank army and as firm a Soviet commitment as possible to a common ceiling for both Warsaw Pact and NATO forces in Central Europe.

No progress was made during the most recent session of the talks. The West continued to press for a Soviet reduction in ground forces and a common ceiling. Though pressed by Western negotiators to exchange data concerning its forces, the Eastern side continued to regard such an exchange as "premature."

The Soviets continued to criticize the asymmetrical approach advocated by the West and demanded that the scope of the negotiations be broadened to include reduction of air and nuclear forces. They also continued to insist that all Western participants—not just the US—accept limitations on their forces from the outset of any agreement.

The only new development came with Eastern agreement to discuss how the forces of the two sides should be defined—that is, how to distinguish ground from air forces. No agreement was reached on definitions, but the topic will be pursued in September.

The real focus of Western activity was at NATO headquarters in Brussels, where the Allies are still engaged in thorough discussions of the nuclear option. Two particularly sensitive issues were raised: possible limitations on West European armaments, and the issue of restraining Soviet nuclear systems in the area.

Other issues under discussion included:

- the nature of a Soviet commitment to a common ceiling for manpower;
- the possible inclusion of air as well as ground force manpower in the common ceiling;
- the extent to which these proposals should be linked together and the appropriate time to introduce them at Vienna.

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Some of the Allies, particularly West Germany, are extremely sensitive to any proposals involving limitations on Allied weapons. Bonn might accept some restraints on manpower but virtually rules out any limitations on West German armaments. The UK insists that the West require a Soviet commitment to a specifically enumerated common ceiling.

Negotiations in Brussels are expected to continue throughout this month and into August. [REDACTED]

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VIETNAM

Overall growth in the North Vietnamese economy during 1973 and 1974 was less than Hanoi had hoped, and the communist takeover of South Vietnam will complicate the task of economic development in the North over the next few years.

After the cease-fire in January 1973, Hanoi gave priority to rapid restoration of bomb-damaged transportation routes, electric power plants, and small modern industries. Roads, bridges, truck depots, and rail facilities were repaired quickly, often in a makeshift way. Restoration of the Thac Ba hydroelectric power plant, the Uong Bi and Thai Nguyen thermal power plants, and construction of a new thermal power plant at Ninh Binh restored the country's power capacity to nearly the prewar level.

Production gained in 1974, but attempts to restore output to prewar levels in iron and steel, cement, chemical fertilizers, and coal were only partly successful. The need for extensive damage surveys, combined with shortages of fuel, raw materials, and technical skills, delayed the start of reconstruction.

Output from light industries and handicrafts—which, except for textile plants, were relatively free of direct damage—grew moderately with the improvement in transportation facilities, raw material supplies, and availability of electric power. Repairs to damaged textile plants, including those at Nam Dinh and Haiphong, and construction of new ones probably restored most of the country's textile production capacity.

Problems in agriculture have especially retarded economic growth. Agriculture still dominates the economy, accounting for between 35 and 40 percent of national output and employing 70 percent of the civilian labor force. Since the war, agriculture lagged because of lack of investment and muddled policies.

North Vietnam's rice yields are still among the lowest in Asia because of insufficient irrigation, water-control facilities, farm machinery, and high-quality fertilizers. Rice output did not grow in 1973 because of weather damage to the autumn harvest; in 1974, growing conditions were favorable and output was up 10 percent.

Hanoi has leaned heavily on its communist allies for commodity and capital assistance. Aid jumped from \$425 million in 1972 to about \$600 million in 1973 and then to \$1.2 billion in 1974.

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Last December, Hanoi set an ambitious target for economic growth in 1975. The planners did not anticipate the military takeover of the South in April, however; this has diverted Hanoi's attention to improving security, administering the government, and reviving the economy in the South. Although substantial industrial growth can be expected in the North as restoration and expansion of large plants are completed, most of Hanoi's targets for 1975 appear beyond reach.

Beyond the next year or so, growth prospects are likely to get worse before they get better, despite a large labor force and relatively abundant natural resources. North Vietnam lacks the management skills and technical competence needed for fast growth.

Economic integration with the South will require major adjustments in Hanoi's investment, production, and distribution plans. For this reason, Hanoi is redrafting its five-year plan (1976-80) and will scale down earlier targets to devote some resources to the South's economy.

Hanoi probably cannot count on receiving as much foreign aid as in the past, since the USSR and East European countries are insisting on closer supervision of aid than they exercised during the war.

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